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ANNUAL REPORT

NATIONAL TEA CO.

FOR THE YEAR ENDING DECEMBER 31, 1936

MRB
CORP. FILE

NATIONAL TEA CO.

Complete Food Store

To The Stockholders of the
National Tea Co.

Submitted herewith is a copy of the Consolidated Balance Sheet of your Company as of December 31, 1936, and a Consolidated Statement of Income and Surplus accounts for the year ended that date, certified by Arthur Young & Co.

The Net Profit for the year, after making provision for federal taxes, amounted to $226,750.30, equivalent after preferred dividends to 23¢ per share on 628,250 shares of outstanding common stock. This compares with a profit of $319,260.03 for the year 1935, equivalent after preferred dividends to 37¢ per share.

The Consolidated Store Sales for the year amounted to $62,485,319.71 as compared with store sales for 1935 of $61,609,667.73, or an increase of 1.42%. In 1935 the Company made Direct Warehouse Sales on contracts of $1,453,793.95, which were not recurring in 1936. At December 31, 1936, the Company operated 1221 stores of which 477 were combination grocery and meat markets, as compared with 1224 of which 467 were combination stores at December 31, 1935.

The Three-Year 5% Sinking Fund Notes due December 15, 1937, outstanding at the beginning of the year in the amount of $2,650,000.00 were retired during the year by the calling for redemption of a par value of $2,475,000.00 and the retirement thru the Sinking Fund of a par value of $175,000.00. The funds for this redemption were provided in part from Working Capital and in part from Bank Loans made at a substantial saving in interest charges.

PERSONNEL

A change in the personnel of the officers of your Company was made necessary as the result of the untimely death of Mr. George Rasmussen on August 23rd last, after a lingering illness. Mr. Rasmussen was the Founder of the National Tea Co. and its head until the time of his death.

ORGANIZATION STRENGTHENED

Within the last few months our staff has been strengthened by the addition of men thoroughly experienced in their respective lines. Operating responsibilities have been assigned to those best able to carry them to a successful conclusion, and a fine spirit of cooperation exists in all departments.

PUBLIC RELATIONS

Through improved store and staff personnel a better consumer understanding has been developed. Our Company's cooperation with Farm Groups by extraordinary efforts to dispose of agricultural surpluses has created a better understanding by these farm groups of the advantages in distribution developed by food chains. Our participation in community interests where we operate stores has also contributed much to a better public understanding.

TAXATION AND LEGISLATION

For the year covered by this report taxes charged against earnings amounted to a total of $1,990,053.45 of which discriminatory chain store taxes existing in five out of the seven states in which your company operates continue to be an unfair burden. With a better understanding of chain store distribution by legislators and public officials created by the logical defense made against the effort of selfish interests to penalize the economical advantages developed by food chains in distributing the greatest necessity of life, and with a keener conception on the part of agriculture and the consumer of the need for economy in distributing food products, we firmly anticipate a reduction in this type of unfair taxation and the ultimate elimination of same.

While we have had many unfavorable conditions to contend with during the last few years, we face the future with the utmost confidence that the efforts we are making to overcome them will develop more profitable results.

Respectfully submitted,

Frederick H. Massmann,
President.

CONSOLIDATED

DECEMBE

ASSETS

CURRENT ASSETS:			
Cash on Hand and in Banks			$ 951,132.64
Notes receivable (less Reserve for Doubtful Notes)			8,596.03
Accounts Receivable—			
Trade	$ 260,922.36		
Due from Relief Agencies	120,958.74		
Other	44,918.96		
	$ 426,800.06		
Less: Reserve for Bad Debts	31,042.32		
			395,757.74
Inventories of Merchandise and Supplies on hand and in transit, certified as to quantities and condition by officials of the Company and valued at cost or market, whichever is lower			7,032,021.92
Total Current Assets			$ 8,387,508.33
EMPLOYES' STOCK SUBSCRIPTION CONTRACTS:			
Investment in contracts secured by 7,850 shares Preferred Stock National Tea Co. and guaranteed			63,481.23
CASH IN CLOSED BANKS, LESS RESERVE			19,659.67
MORTGAGES AND NOTES RECEIVABLE			19,786.46
INVESTMENTS:			
Nateco Realty Trust (represented by 500 Certificates of Beneficial Interest, being 50% ownership at cost, which is less than book value)	$ 668,870.51		
Sundry	4,054.63		
			672,925.14
PROPERTIES—AT COST UNLESS OTHERWISE STATED:			
Land		$3,107,429.64	
Buildings (at cost less reduction in valuation as of June 17, 1935 as determined by Board of Directors)	$ 4,860,823.21		
Machinery, Fixtures and Equipment	8,077,847.94		
Delivery Equipment	900,320.82		
	$13,838,991.97		
Less: Reserve for Depreciation	7,278,506.03		
		6,560,485.94	
			9,667,915.58
GOOD WILL			1.00
DEFERRED CHARGES:			
Prepaid Rents, Taxes, Insurance, etc.			166,181.49
			$18,997,458.90

The President and Board of Directors,
National Tea Co., Chicago

We have made an examination of the consolidated balance statement of consolidated income and surplus for the year 1936 other corporate records of the company and its wholly owned s from officers and employes of the companies; we also made a ge income accounts for the year, but we did not make a detailed

The Three Year 5% Sinking Fund Notes outstanding at the b during the year, notes of a par value of $1,000,000 being redeem tion at par as of December 16, 1936. The balance of the notes w and expense was charged to income account.

In our opinion, based upon such examination, the accompa and surplus fairly present in accordance with accepted princi financial position at December 31, 1936 and the results of the

Chicago, Illinois, February 15, 1937.

BALANCE SHEET

R 31, 1936

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:		
Notes Payable		$ 2,045,000.00
Accounts Payable—		
Trade, etc.	$1,516,494.16	
Payroll and Commissions	104,478.65	
Interest and Taxes	563,666.44	
Employes' Deposits	11,491.65	
Dividends Payable	107,720.48	
Provision for Federal Income Tax, Capital Stock Tax and Social Security Taxes (estimated)	175,492.18	
		2,479,343.56
Purchase Money Obligations due in 1937		37,750.00
Commercial Letters of Credit (Merchandise Received or in Transit)		83,675.63
Total Current Liabilities		$ 4,645,769.19
PURCHASE MONEY OBLIGATIONS— DUE SUBSEQUENT TO 1937		145,000.00
CONTINGENT RESERVE		41,104.54
PREFERRED STOCK, 5½% CUMULATIVE:		
Authorized and Issued...200,000 shares of $10 each		2,000,000.00
Less: Held in Treasury. 52,120 shares		
Outstanding.....147,880 shares		
COMMON STOCK:		
Authorized.....800,000 Shares of No Par Val.		
Issued.....660,000 Shares		8,250,000.00
Less: Held in Treasury (24,500 shares under Option Agreement with Former Holders of Three Year 5% Sinking Fund Notes). 31,750 Shares		
Outstanding.....628,250 Shares		
EARNED SURPLUS:		
As per Statement attached	$4,774,300.47	
Less:		
Capital Stock held in Treasury—		
Preferred—52,120 Shares.....$518,049.25		
Common—31,750 Shares 340,666.05		
	858,715.30	
		3,915,585.17
		$18,997,458.90

sheet of National Tea Co. as at December 31, 1936 and of the . In connection therewith we examined or tested accounting and subsidiary companies and obtained information and explanations neral review of the accounting methods and of the operating and audit of the transactions.

beginning of the year of a par value of $2,650,000 were redeemed ed on April 22, 1936 at 100½ and $1,475,000 called for redemp- was retired through the Sinking Fund. Unamortized note discount

nying consolidated balance sheet and related statement of income ples of accounting consistently followed by the companies, the operations for the year.

ARTHUR YOUNG & CO.
Certified Public Accountants.

INCOME AND SURPLUS ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1936

SALES			$62,485,319.71
Deduct:			
Cost of Sales and Expenses, including Sales and Occupational Taxes	$61,358,393.45		
Depreciation	900,535.62		62,258,929.07
NET OPERATING PROFIT			$ 226,390.64
Add:			
Dividends received from investments during 1936— Nateco Realty Trust	$ 40,000.00		
Sundry Stocks	187.35		40,187.35
Profit on Sale of Capital Assets			11,172.31
Net Profit before deducting provision for Federal Income Tax			$ 277,750.30
Provision for Federal Income Tax (estimated)			51,000.00
Net Profit transferred to Surplus			$ 226,750.30
Earned Surplus, January 1, 1936	$ 4,990,834.17		
Add:			
Reserve for Contingencies of Subsidiary not now required because of Liquidation of Subsidiary	15,000.00		
	$ 5,005,834.17		
Deduct:			
Dividends—			
Preferred	$ 81,334.00		
Common	376,950.00		
	458,284.00		4,547,550.17
Earned Surplus, as per Balance Sheet			$ 4,774,300.47

National Tea Co.

Directors

Frederick H. Massmann

George Rasmussen, Jr.

Th. Rasmussen

Burt J. Dickens

Robert V. Rasmussen

Joseph L. Merrill

W. E. Russell

Officers

Frederick H. Massmann
President

Robert V. Rasmussen
Vice-President

Th. Rasmussen
Treasurer

Burt J. Dickens
Secretary

W. E. Russell
Comptroller